Investment Timing and Timelines

Let's talk timing…and timelines! As the sayings go –

- Timing is everything
- Time is our most valuable asset
- Give time… time

There are two key 'time' components as it relates to financial markets and financial goals. I am going to spend a little time on both with the goal of hopefully providing some insight into how they are relevant to the investment process and how we work with each concept when allocating client capital.

The Perils of Market Timing

Let's tackle the market timing concept first. Simply put, don't attempt it. There are three key reasons why market timing is not a viable strategy. First and foremost, you have to get it right twice. Your timing has to be correct on both the initial trade as well as the subsequent decision to get back in or out. The likelihood of nailing it on both sides is minimal. Another timing element that adds to the difficulty is the information advantage that professional money managers have over the street. This is not necessarily inside information. However, they have access to resources and experience that makes them hard to beat, at least in terms of a timing trade. The third piece that I think is often underappreciated is the cost of being wrong, largely because it's harder to measure. In some cases, the compounded cost of being wrong over decades can have a material impact on investment outcomes.

Timelines & Portfolio Construction

Part two of the time discussion shifts to asset class timelines and client time horizons. In this case, it is all about playing the odds, essentially the opposite of market timing. Asset classes are the first piece of the puzzle. Understanding the amount of time each asset class requires in order to play out helps better align client portfolios with those time horizons. Cash or near-cash instruments is preferred for any needs inside of two years. Generally, fixed income requires at least 2-5 years to act like the long-term average. Global equities require at least 5-7 years and private investments generally take at a minimum of seven years. There are exceptions to all of these but usually if you give each of those asset classes their time, they will look a lot like they're supposed to over the long-term. We match those horizons with the client's timelines when we determine an appropriate asset allocation. Clients typically fall into either the accumulation (saving and growing) phase or the distribution (spending) phase. Accumulation phase clients should generally target an approximately 80/20 allocation. They typically have very little need for cash since they are still earning income and don't need their portfolio to support their expenses. Distribution clients should generally lean more toward a 50/50 allocation with a larger cash allocation in order to support their spending. The better we align portfolios with client situation, the less likely we'll be to have to disrupt the portfolio at the wrong time.

Conclusions & Takeaways

Like all things capital markets, there are no magic bullets. It's more about understanding the way things work over the long term and using those mechanics to develop an allocation that gives you the best chance of achieving your long-term goals. There is so much out there that is uncontrollable, so we focus on what we can control. We believe this gives our clients the best chance to win and by winning, in this case, we mean helping clients to achieve financial independence.